

## Internal Revenue Service, Treasury

## § 1.614-7

*Example.* Taxpayer A owns operating mineral interests Nos. 1, 2, and 3. He acquired interests Nos. 1 and 2 in 1953 but purchased and made development expenditures on interest No. 3 on December 1, 1954. In his return for the taxable year 1954, taxpayer A elects to aggregate interests Nos. 1, 2, and 3 which are operated as a unit. On May 1, 1955, taxpayer A sells the north half of the aggregated prop-

erty which includes portions of interests Nos. 1, 2, and 3. The sales price of the north half was \$80,000; the adjusted basis of the aggregated property as of the date of sale was \$20,000; and the fair market value of the aggregated property as of the date of sale was \$100,000. The adjusted basis applicable to the north half is computed as follows:

$$\frac{\$80,000 \text{ (FMV of portion sold)}}{\$100,000 \text{ (FMV of aggregated property)}} \times \$20,000 \text{ (adjusted basis of aggregated property)} = \$16,000 \text{ (adjusted basis of portion sold)}$$

The total gain on the sale is \$64,000 (\$80,000 - \$16,000).

The gain attributable to the sale of the portion held for six months or less is computed as follows (assuming that the fair market value of the portion of No. 3 included in the sale as of the date of sale was \$30,000):

$$\frac{\$30,000 \text{ (FMV of portion of No. 3 sold)}}{\$80,000 \text{ (FMV of north half)}} \times \$16,000 \text{ (adjusted basis of north half)} = \$6,000 \text{ (adjusted basis of portion of No. 3 sold)}$$

The gain on the portion of No. 3 sold is \$24,000 (\$30,000 - \$6,000).

(c) *Acquisition of property with transferor's basis.* If a separate property or an aggregated or combined property is acquired in a transaction in which the basis of such property in the hands of the taxpayer is determined by reference to the basis of such property in the hands of a transferor, then the election of such transferor as to the treatment of such separate, aggregated, or combined property shall be binding upon the taxpayer for all taxable years ending after the transfer unless, in the case of an aggregation, the aggregation terminates or consent to make a change is obtained under paragraph (d) (4) of § 1.614-2, paragraph (f) (7) of § 1.614-3, or paragraph (b) (3) or (e) (5) of § 1.614-5, whichever is applicable.

(d) *Abandonment and casualty losses.* In the case of mineral interests which are aggregated or combined as one property, no losses resulting from worthlessness or abandonment are allowable until all the mineral rights in the entire aggregated or combined property are proven to be worthless or until the entire aggregated or combined property is disposed of or abandoned. Casualty losses are allowable in

accordance with the rules applicable to casualty losses in general. For rules applicable to losses in general, see section 165 and the regulations thereunder.

[T.D. 6524, 26 FR 159, Jan. 10, 1961, as amended by T.D. 6859, 30 FR 13701, Oct. 28, 1965; T.D. 7728, 45 FR 72650, Nov. 3, 1980]

#### § 1.614-7 Extension of time for performing certain acts.

Sections 1.614-2 to 1.614-5, inclusive, require certain acts to be performed on or before May 1, 1961 (the first day of the first month which begins more than 90 days after the regulations under section 614 were published in the FEDERAL REGISTER as a Treasury decision). The district director may, upon good cause shown, extend for a period not exceeding 6 months the period within which such acts are to be performed, and shall, if the interests of the Government would otherwise be jeopardized thereby, grant such an extension only if the taxpayer and the district director agree in writing to a corresponding or greater extension of

the period prescribed for the assessment of the tax, or in the case of taxable years described in section 614(c)(3)(E), the assessment of the tax resulting from the exercise or change in an election.

[T.D. 6561, 26 FR 3523, Apr. 25, 1961]

**§ 1.614-8 Elections with respect to separate operating mineral interests for taxable years beginning after December 31, 1963, in the case of oil and gas wells.**

(a) *Election to treat separate operating mineral interests as separate properties—*

(1) *General rule.* If a taxpayer has more than one operating mineral interest in oil and gas wells in one tract or parcel of land, he may elect to treat one or more of such interests as separate properties for taxable years beginning after December 31, 1963. Any such interests with respect to which the taxpayer does not so elect shall be combined and treated as one property. Non-operating mineral interests may not be included in such combination. There may be only one such combination in one tract or parcel. Any such combination of interests shall be considered as one property for all purposes of subtitle A of the Code for the period to which the election applies. The preceding sentence does not preclude the use of more than one account under a single method of computing depreciation or the use of more than one method of computing depreciation under section 167, if otherwise proper. Any reasonable and consistently applied method or methods of computing depreciation of the improvements made with respect to the separate interests which are combined may be continued in accordance with section 167 and the regulations thereunder. Except as provided in paragraph (b) of this section, such an interest in one tract or parcel may not be combined with such an interest in another tract or parcel. For rules with respect to the allocation of the basis of an aggregation of separate operating mineral interests under this section among such interests as of the first day of the first taxable year beginning after December 31, 1963, see paragraph (a) (2) (ii) of § 1.614-6. For the definition of *operating mineral interest* see paragraph (b) of § 1.614-2.

(2) *Election in respect of newly discovered or acquired interest or interest ceasing to participate in cooperative or unit plan of operation.* (i) If the taxpayer makes an election under this paragraph in respect of an operating mineral interest in a tract or parcel of land and, after the taxable year for which such election is made, an additional operating mineral interest in the same tract or parcel is discovered or acquired by the taxpayer or is the subject of an election under this paragraph because it ceases to participate in a cooperative or unit plan of operation to which paragraph (b) of this section applies, the additional operating mineral interest shall be treated:

(a) If there is no combination of interests in such tract or parcel, as a separate property unless the taxpayer elects to combine it with another interest, or

(b) If there is a combination of interests in such tract or parcel, as part of such combination unless the taxpayer elects to treat it as a separate property.

(ii) The application of this subparagraph may be illustrated by the following example:

*Example.* Prior to 1964 a taxpayer acquired, and incurred development expenditures with respect to, three operating mineral interests in oil, designated Nos. 1, 2, and 3. All three interests are in the same tract or parcel of land. For the taxable year 1964, the taxpayer elects to treat such interests as three separate properties. During the taxable year 1965, the taxpayer discovers and incurs development costs with respect to a fourth operating mineral interest, No. 4, in the same tract of land. During the taxable year 1966, the taxpayer discovers and incurs development costs with respect to a fifth operating mineral interest, No. 5, in the same tract of land. If the taxpayer makes no election relative to No. 4 for 1965, such interest will thereafter be treated as a separate property. Alternatively, the taxpayer may make an election for 1965 to combine No. 4 with any one (and only one) of the three other interests and to treat such combination as one property. If, for example, he elects to combine No. 4 with No. 3, then in 1966, No. 5 will automatically become part of the combination of Nos. 3 and 4 if no election is made to treat it as a separate property. After the combination of Nos. 3 and 4 is formed, Nos. 1 and 2, which were acquired or discovered prior to the formation of the combination and which were not included in such combination within the time